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A YEAR OF STATE DEFICITS.

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One feature in public finance is remarkable because of its prevalence throughout the civilized world—the growing disparity between government revenue and expenditure. Were this merely a repetition of a phase of national life which has often been witnessed, where depression has reduced revenue below the requirements of the government, to be followed by a rapid recovery on a return of prosperity, the matter would hardly demand notice. Were it a deficit to be made good by the simple extension of existing methods of taxation, it would still be of ordinary interest, and a statement of income and expense would be sufficient to measure the deficit without explaining the cause. But the situation offers a more serious problem, for it seems to raise the question of national revenue in a form other than has been recognized. Are the existing taxes failing to obtain revenue from the people, and must a new system be devised for enabling the governments to obtain what they need, even assuming there is no marked increase in the amount of expenditure?

In the countries of southern Europe the existence of a deficit in the the national budget has come to be regarded as something to be expected. Portugal has for many years been bankrupt, and is satisfied to obtain the little she can at usurious rates and with practises that would ruin a stronger country. Spain is in no better position, for the weight of debt and the circulation of much inflated and irredeemable paper currency have deprived her of any credit in other money markets, and her resources have been so heavily mortgaged as to leave nothing for future negotiations. Italy has found increasing difficulty in meeting her expenses, and, ambitious to rate among the great powers, she has exhausted her people in lavish and unproductive expenditures, in costly army and navy, and in various colonial ventures. From mere weariness she is now contracting her ambitions in Africa and accepts the position of a weak power. The injury to her people has been enormous, so large as to render any expectation of recuperation out of the question. With a floating debt of \$110,000,000 there is to be a deficit of \$28,000,000 to be met in the operations for 1898–99. The revenue is falling away, and the ministry are unwilling or unable to effect economies in an overgrown

and, it is believed, corrupt civil service. Any additions to their taxes will increase the disaffection of the people, already great, and kept under only with difficulty. Yet she demands of China concessions which she cannot enforce without large expense and trouble.

Only a little above these countries in its fiscal character stands France. This people have long had the largest debt and the heaviest taxation per capita of any civilized power, and the inability to make the revenues meet the rapidly increasing expenditure has become greater each year. The budget proposals for 1899 call for a total expenditure of \$695,000,000, an increase of more than \$17,000,000 over the budget of 1898. But the preliminary propositions are invariably very favorable, and to make them favorable economies are assumed to have been accomplished, the floating debt is put out of sight, and the revenues placed at the highest point. Assuming that this point is maintained every dollar of the additional expenditure must be met with an increase of old taxes, or the laying of new imposts. The revenue for 1898 was not sufficient to meet all the demands made upon it, and between ordinary credits and extraordinary credits, the transfer of sums from one department or cause of expense to another, the budget is not closed for some years after the end of the year it is intended to cover. Still a deficit remains, and one of no light amount, to be added to the floating debt or funded by the sale of *rentes*.

Germany is in a better position as increasing burden can be shifted to the confederating states. No matter what the deficiencies in revenue from imperial taxation may be, it is made good by being quotaed among the different states. That there should be a limit to this process is only natural, for a demand much heavier than usual would lead the states to ask whether the advantages of confederation were worth the money they required — a question that was often asked under Bismarck, leading him to devise many new schemes for increasing the imperial revenues. In fact, had his wish on the brandy monopoly and similar plans been carried, it would have made the empire financially independent of the states, thus increasing its powers and leaving it more free to enter into foreign projects and build up that huge military engine it fears must some day be employed to save it from destruction.

The imperial budget for 1899 calls for an expenditure of \$388,800,000, and in the statement of the minister the revenue will just balance that amount. To obtain this equilibrium, however, the states are called upon to pay out of their income the sum of \$122,500,000, an increase of \$3,500,000 over that required for 1898. As the items for the army and navy alone have risen by \$10,000,000 in a year, the chancellor counts upon a good increase in the revenues from taxation, especially from those from customs and on consumption. Should these fail, the states will be expected to make good the deficiency, and the states depend upon direct taxes for their funds, taxes which make the people feel their presence and resent an increase of pressure. The only alternative is to borrow money by selling government stock, something to be avoided, as the imperial debt appears to grow in spite of every effort to keep it down. Since 1891 the capital of the debt has been increased by \$175,000,000; and although the operations of the German treasury for the fiscal year 1898 showed an apparent surplus of \$22,500,000, the sum of \$10,875,000 was added to the debt. Only through extraordinary receipts and the contributions of the states is this tendency to pile up debt held within moderation.

Austria-Hungary has been so disturbed in its domestic politics it is not strange to find its finances in a greatly disordered condition. What makes the crisis the more severe is the fact that no emission of *rente* or government stock can be made without the constitutional approval of the Reichsrath. The government is thus powerless to meet a deficiency or sudden demand for a large expenditure, as an imperial decree can not make good the guarantee to a loan provided by the constitution, and any attempt to avoid this legislative control over the debt would seriously affect the credit of the empire. Some such limitation was needed; otherwise a finance minister might increase the imperial or joint debt to any amount, and so cripple the two parts of the empire in their undertakings. For there is a special debt of Austria and another of Hungary, and it has been regarded as better policy to increase the individual debts than to permit the growth of a joint debt. In this way a greater sense of responsibility is imposed, and the extravagance of a government is placed more immediately under the cognizance of the people obliged to pay the taxes.

This plan is not without disadvantages. In the joint budget for 1899 there was an additional sum of 30,000,000 florins to be met for war expenditures, and such an item offered a fair opportunity to discuss the financial relations of the two countries constituting the empire. In their present strained relations no attempt was made to determine the share of the budget to be borne by each, and this delicate matter was left to the decision of the Emperor, whose personal influence is very strong in maintaining peace between the German and the Slav elements. Already a loan has been negotiated by the joint financial minister, and on terms regarded as unusual.

In the Hungarian budget for 1899 the ordinary receipts would leave a surplus of 22,500,000 florins on the ordinary expenditures. But there are extraordinary expenditures to be met, and, in spite of some extraordinary revenue, they are sufficient to swallow up the surplus. This has been the situation for some years, but the most cautious calculation is required to produce this equilibrium, and there is a small amount added each year to the Hungarian debt, already large. Nor was the minister of Austria able to show better results in his recent budget. The requirements are placed at 760,286,793 florins, or more than 36,500,000 florins more than those for 1867, and the receipts are placed at nearly the same amount, but are estimated at 37,500,000 florins more than they gave in 1898—a rosy anticipation of an overflowing treasury.

Even England faces a deficit after a long term of adequate revenue and a small surplus to be applied to the reduction of the debt. The heavy demands made upon the United Kingdom by the necessity of maintaining a navy equal to any two European navies combined have made themselves felt in the budget, and to them is due the deficit, now small and easily managed, but sure to increase from year to year with the political exigencies of the empire. Believing that the command of the sea is essential to her very existence, Great Britain must maintain that command at every cost.

Outside of Europe, Japan is the country presenting the most interesting budget features. A recent report on the finances of that country contains a note of warning that is as applicable to the United States. “Financially, Japan’s military success over China seems likely to prove a heavy and constant burden. . . . The outlay to which the country has pledged itself on account of various enter-

prises, which are to be carried through within the next ten years, far surpass that amount (100,000,000 yen). These enterprises fall under two categories — productive and unproductive works. The total outlay on productive enterprises, of which the programme has already been settled, amount to 190,000,000 yen, and on unproductive works the outlays during the next decade will come to 325,000,000 yen. This will be the price which the nation will have to pay for the vast scheme of industrial and commercial development on the one hand, and of naval and military expansion on the other, on which the government has decided to embark since the conclusion of the war.”

The latest budget proposals showed a deficit of 26,000,000 yen, all of which it was proposed to meet by increased taxation. But Japan has given of late signs of being overtaxed, and a readjustment of imposts has not been followed by elasticity of revenue. To double the land tax, in a year when the farmers were suffering from poor crops, was not an acceptable suggestion; yet no duties on consumption could meet the needs of the government. The last loan offered by the government has not been filled, and a new offer would depress the credit of the state at home, and affect its ability to borrow in foreign markets save at disadvantageous rates.

It would be unnecessary to describe in detail the financial difficulties of other countries, suffering from over speculation or excessive investment in ventures promising future returns, but offering little at present. Australia, Argentina, Brazil, Chile, India, and Mexico tell much the same story, of rising expenditures, increasing debts, and uncertain revenues. Of the United States nothing need be said, for the daily returns show the increasing deficit, and the extravagance of the last session of Congress has become recognized. Russia is still juggling with her official budget statement, showing a surplus in the face of enormous taxation, crushing the life out of the people, and vast undertakings in Asia which may involve war and will certainly mean heavy expenditures.

There is no immediate prospect of any halt in the demands made upon the governments for expenditures. It is inevitable that the objects of expenditure should become more costly and more numerous as the social relations of a state become more complex. The United States can not escape this general movement, but it should consider with great care the reasonableness of some of the demands made upon it.

The idea has become popular that the government must take the initiative in many costly undertakings, such as the Nicaraguan Canal, the construction of a railroad the length of Cuba, the building up of a merchant marine through subsidies, and the encouragement of navigation interests by an extension of the navigation laws, giving a monopoly of the coastwise trade to American vessels. This policy is an extension to our new dependencies of the protective tariff policy so closely maintained at home. Instead of confining the benefits to the home markets, it is sought to build up great commercial interests in the late Spanish islands, and such an ambition will be very costly to realize. The United States, already suffering from a deficit, enters upon a career of development which involves an almost hopeless disparity between income and expenditure, so long as existing methods of obtaining national revenues are maintained.

After this survey of the leading nations of the world, with their problems of making their supplies meet their needs, it is refreshing to turn to a country where the treasury is conducted so as to take as little as possible from the people. Egypt is in the position of a railroad in the hands of a receiver; its government must continue, but its finances are under a foreign control, and subject to regulations of more than one power. Yet the treasury flourishes, and debt and taxes have been brought to a reasonable minimum, under which the people are not oppressed, and the economy of the country is developed every year towards strength and independence. It is a business matter run on business principles, and so successful has it been that the people have ceased to be cruelly harried and oppressed by their governors, and have been a producing factor of moment in the commerce of the world. The Soudan has been reclaimed from barbarism, the fellah has become a peasant proprietor, and enjoys a commercial freedom and importance which would have been thought impossible less than twenty years ago.

Herein lies the whole problem. A people may spend freely on business principles in directions where the cost is returned many times over in public welfare. But politics or interested partisanship introduces an element that is ruinous to the public good, and debauching to the public service.

WORTHINGTON C. FORD.